

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Wales Township	County St. Clair
Audit Date 3/31/05	Opinion Date 9/23/05	Date Accountant Report Submitted to State: 11/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Ave	City Port Huron	State MI	ZIP 48060
Accountant Signature <i>Stewart, Beauvais & Whipple</i>			Date 11-14-05

WALES TOWNSHIP, MICHIGAN

**ANNUAL FINANCIAL STATEMENTS
with Supplementary Information**

**FOR THE YEAR ENDED
MARCH 31, 2005**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



WALES TOWNSHIP, MICHIGAN

TABLE OF CONTENTS MARCH 31, 2005

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds	9
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Statement of Fiduciary Net Assets – Fiduciary Fund	13
Notes to the Basic Financial Statements	14
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
General Fund	24
Liquor Enforcement Fund	26
Fiduciary Fund:	
Agency Fund – Combining Schedule of Changes in Assets and Liabilities	27

INDEPENDENT AUDITOR'S REPORT

To the Members of the Township Board
Wales Township
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Wales Township, Michigan, as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Wales Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Wales Township, Michigan, as of March 31, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the basic financial statements, the Township adopted Governmental Accounting Statement Board Statement No. 34 and related statements as of and for the year ended March 31, 2005. This resulted in a change in the Township's basic financial statement format and content.

The Management's Discussion and Analysis on pages 3 through 6, and schedules of budgetary comparisons on pages 24 through 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wales Township's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

Certified Public Accountants

September 23, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

Wales Township's 2005 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has two kinds of funds:

Governmental Funds - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Fiduciary Funds – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of \$468,484. This is an increase of \$78,329 over 2004. In a condensed format, the table below shows net assets as of the March 31, 2005. Future reports will provide comparative data.

	<u>Governmental Activities</u>
Assets	
Current assets	\$ 483,972
Restricted assets	25,790
Noncurrent assets	<u>4,817</u>
Total assets	<u>514,579</u>
 Liabilities	
Current liabilities	<u>46,095</u>
 Net Assets	
Invested in capital assets – Net of related debt	4,817
Restricted	110,159
Unrestricted	<u>353,508</u>
 Total net assets	 <u>\$ 468,484</u>

The Township governmental activities experienced a net change in assets of \$78,329.

The following table shows the changes in net assets for 2005. Future reports will provide comparative data for the statement of activities.

	<u>Governmental Activities</u>
Revenue	
Program revenue:	
Charges for services	\$ 92,245
Operating grants and contributions	11,888
General revenue:	
Property taxes	97,341
State-shared revenue	202,182
Interest income	<u>6,731</u>
 Total Revenue	 <u>\$ 410,387</u>

	<u>Governmental Activities</u>
Program Expenses	
General government	179,821
Public safety	101,500
Public works	46,897
Recreation and cultural	<u>6,948</u>
Total Program Expenses	<u>332,058</u>
 Changes in net assets	 <u><u>\$ 78,329</u></u>

Governmental Activities

Revenues for governmental activities totaled \$411,322 in 2005. Of this amount \$ 97,341 was from property taxes, \$ 202,182 from state shared revenues and \$93,180 for various charges for services including building, plumbing and mechanical permits.

FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

Governmental Fund

The General fund ended 2005 with a fund balance of \$425,534, with \$72,029 reserved for parks and recreation, \$12,870 for the inspection department and \$25,260 for cemetery perpetual care. The remaining fund balance of \$340,635 is unreserved and undesignated. This is an increase of \$78,329 from the prior year mainly as a result of expected road expenditures that were not incurred.

The General Fund budget was amended throughout the year as deemed necessary, primarily to prevent over expenditure. There were no significant amends made during the year. The original budget estimated that the General Fund would have an excess of expenditures over revenues of \$45,973 and the final budget estimated expenditure over revenues of \$55,873. Actual revenues exceeded expenditures by \$69,123, mainly as a result of not incurring road expenditures of \$64,102 and additional revenues of \$35,143.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township adopted a capitalization policy of \$5,000, as a result only assets with an individual value of more then that are capitalized with all items under that value expensed in the year of purchase. As of March 31, 2005 the Township had \$4,817 invested in capital assets (net of accumulated depreciation). During the year the Township added a generator for \$5,100.

Many of the Townships assets, including land were either donated to the Township or were purchased in the late 1800's or early 1900's therefore are fully depreciated.

Additional information on the Township's capital assets can be found in Note 7.

Long-Term Debt

The Township did not have any long-term debt at March 31, 2005

ECONOMIC FACTORS AND NEXT YEARS BUDGET

For fiscal 2006, Wales Township Board adopted a budget with estimated revenue of \$329,600, and expenses of \$410,427. We anticipate making up the differences from our Fund Balance. The 2006 budget anticipated some further cuts.

CONTACTING THE TOWNSHIP

This financial report is designed to provide a general overview of the Township's finances to and our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 325-1517.

BASIC FINANCIAL STATEMENTS

WALES TOWNSHIP
St. Clair County, Michigan

STATEMENT OF NET ASSETS
MARCH 31, 2005

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 429,171
Receivables	46,193
Prepaid expenses	8,608
Restricted Assets -	
Cash and cash equivalents	25,790
Capital Assets (net of accumulated depreciation) -	
Assets being depreciated	4,817
Total Assets	<u>514,579</u>
LIABILITIES:	
Payables and accrued liabilities	2,711
Bond deposits payable	43,384
Total Liabilities	<u>46,095</u>
NET ASSETS:	
Investment in capital assets, net of related liabilities	4,817
Net Assets	
Restricted -	
Other	110,159
Unrestricted	<u>353,508</u>
Total Net Assets	<u><u>\$ 468,484</u></u>

The accompanying notes are an integral part of these financial statements.

WALES TOWNSHIP
St. Clair County, Michigan

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government					
Governmental activities:					
General Government	\$ 179,821	\$ 16,879	\$ -	\$ -	\$ (162,942)
Public Safety	101,500	67,466	1,100	-	(32,934)
Public Works	46,897	7,900	-	-	(38,997)
Recreation and Culture	3,840	-	10,788	-	6,948
Total Primary Government	<u>332,058</u>	<u>92,245</u>	<u>11,888</u>	<u>-</u>	<u>(227,925)</u>
General revenues:					
Property taxes					97,341
Grants and contribution not - restricted to specific programs					202,182
Unrestricted investment income					<u>6,731</u>
Total general revenues					<u>306,254</u>
Change in net assets					78,329
Net assets at beginning of year					<u>390,155</u>
Net assets at end of year					<u>\$ 468,484</u>

The accompanying notes are an integral part of these financial statements.

WALES TOWNSHIP
St. Clair County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2005

	General	Liquor Enforcement	Cemetery Perpetual Care	Total Governmental Funds
ASSETS				
Assets:				
Cash and cash equivalents	\$ 429,171	\$ -	\$ -	\$ 429,171
Receivable				
Taxes	8,833	-	-	8,833
Other	5,829	-	-	5,829
Due from other governmental units -				
State	31,531	-	-	31,531
Due from other funds	-	238	-	238
Restricted Assets -				
Cash and cash equivalents	-	-	25,790	25,790
	<u>-</u>	<u>-</u>	<u>25,790</u>	<u>25,790</u>
Total Assets	<u>\$ 475,364</u>	<u>\$ 238</u>	<u>\$ 25,790</u>	<u>\$ 501,392</u>
Liabilities:				
Accounts payable	\$ 2,711	\$ -	\$ -	\$ 2,711
Bond deposits payable	43,384	-	-	43,384
Due to other funds	238	-	-	238
Deferred revenue	3,497	-	-	3,497
	<u>49,830</u>	<u>-</u>	<u>-</u>	<u>49,830</u>
Total Liabilities	<u>49,830</u>	<u>-</u>	<u>-</u>	<u>49,830</u>
Fund Balances:				
Reserved -				
Inspection Department	12,870	-	-	12,870
Parks Millage	72,029	-	-	72,029
Perpetual Care	-	-	25,260	25,260
Unreserved -				
Undesignated -				
General Fund	340,635	-	-	340,635
Special Revenue Funds	-	238	530	768
Total Equity	<u>425,534</u>	<u>238</u>	<u>25,790</u>	<u>451,562</u>
Total Liabilities and Fund Equity	<u>\$ 475,364</u>	<u>\$ 238</u>	<u>\$ 25,790</u>	<u>\$ 501,392</u>

The accompanying notes are an integral part of these financial statements.

WALES TOWNSHIP
St. Clair County, Michigan

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
MARCH 31, 2005**

Fund Balances - total governmental funds	\$ 451,562
Amounts reported for governmental activities in the statement of net assets are different because:	
Prepaid Expenses recorded in the funds on the purchase method	8,608
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	5,100
Accumulated depreciation	(283)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>3,497</u>
Net Assets of governmental activities	<u><u>\$ 468,484</u></u>

The notes to the financial statements are an integral part of this statement.

WALES TOWNSHIP
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

	General	Liquor Enforcement	Cemetery Perpetual Care	Total Governmental Funds
Revenues:				
Taxes	\$ 97,341	\$ -		\$ 97,341
Licenses and permits	46,599	-		46,599
Intergovernmental -				
Federal/State	202,182	1,100		203,282
Local	10,788	-		10,788
Charges for services	25,276	-	5,610	30,886
Interest and rent	6,629	-	102	6,731
Other	15,695	-	-	15,695
Total Revenues	<u>404,510</u>	<u>1,100</u>	<u>5,712</u>	<u>411,322</u>
Expenditures:				
Current -				
General Government	184,524	-	-	184,524
Public Safety	100,126	1,374	-	101,500
Public Works	46,897	-	-	46,897
Recreation and Cultural	3,840	-	-	3,840
Total Expenditures	<u>335,387</u>	<u>1,374</u>	<u>-</u>	<u>336,761</u>
Excess of revenues over expenditures	69,123	(274)	5,438	74,561
Fund Balances at beginning of year	<u>356,411</u>	<u>512</u>	<u>20,078</u>	<u>377,001</u>
Fund Balances at end of year	<u>\$ 425,534</u>	<u>\$ 238</u>	<u>\$ 25,516</u>	<u>\$ 451,562</u>

The accompanying notes are an integral part of these financial statements.

WALES TOWNSHIP
St. Clair County, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2005**

Net change in fund balances - total governmental funds	\$ 74,561
Change in prepaid expenses recorded in the funds on the purchase method	(114)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	5,100
Depreciation expense	(283)
Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds.	(935)
Change in net assets of governmental activities	\$ <u>78,329</u>

The notes to the financial statements are an integral part of this statement.

WALES TOWNSHIP
St. Clair County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
MARCH 31, 2005

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 500</u>
 LIABILITIES:	
Due to others	<u>\$ 500</u>

The accompanying notes are an integral part of these financial statements.

WALES TOWNSHIP, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

Wales Township, Michigan, a Municipal Corporation, was organized as a Township in 1841. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 36 square miles. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two (2) Trustees, and provides services to its more than 3,000 residents in many areas including fire protection, roads, health and safety, planning and zoning, and economic development.

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary fund, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as a separate column in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2004 levy in the year ended March 31, 2005). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

WALES TOWNSHIP, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the current year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – The General Fund is the General Operating Fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

The Township reports the following fund types:

Special Revenue Fund – is used to account for the proceeds from the State of Michigan requiring separate accounting because of legal, regulatory provisions or administrative action.

Agency Funds – are used to account for assets held by the Township as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

WALES TOWNSHIP, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, the unrestricted resources, as they are needed.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments –

The Township's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonable approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible.

Prepaid Items –

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the statement of net assets.

Property Tax Calendar –

The Township's property tax is levied each December 1 on the taxable value of property located in the Township as if the proceeding December 31. Property taxes are recognized as revenues in the year they were intended to finance. The December 2004 levy is recognized as revenue for the year ended March 31, 2005.

WALES TOWNSHIP, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to April 1, 2004.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

Machinery and equipment	18 years
-------------------------	----------

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

The Township Supervisor prepares and submits the proposed operating budgets for the year commencing April 1. The budgets include proposed expenditures and resources to finance them.

WALES TOWNSHIP, MICHIGAN

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

Prior to March 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

The Township's approved budgets were adopted at the function level. However, for control purposes, all budgets are maintained at the object (account) level.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year ended March 31, 2005, the Township incurred expenditures in the General Fund, which were in excess of the amount appropriated as follows:

<u>Function/Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund –			
Recreation and Culture	\$ 500	\$ 3,840	\$ 3,340

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of March 31, 2005, the carrying amount of the deposits is as follows:

	<u>Primary Government</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Deposits -			
Cash on hand –			
Petty Cash	\$ 500	\$ -	\$ 500
Deposits with Financial Institutions –			
Checking/Money Market	312,449	-	312,449
Savings	<u>142,012</u>	<u>500</u>	<u>142,512</u>
	<u>\$ 454,961</u>	<u>\$ 500</u>	<u>\$ 455,461</u>

Deposits Custodial Credit Risk –

Custodial Credit Risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township's investment policy and Act 217 PA 1982, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, deposit accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws. The Township does not have a deposit policy for custodial credit risk.

WALES TOWNSHIP, MICHIGAN

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of March 31, 2005, the bank balance of the Township's deposits were \$461,883 of which \$200,000 was FDIC insured with the balance \$261,883 exposed to credit risk because they are uninsured and uncollateralized.

Investments –

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the Township to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase, are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 365, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Interest rate risk – is the risk that the market value of securities in the Township's portfolio will fall due to changes in market interest increases. The Township policy attempts to minimize interest rate risk by selecting investments to obtain a market average rate of return and to limit the core of investments to relatively low risk securities.

Credit risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the Township investment policy limits the type of investments the Township can purchase.

Concentration of credit risk – is the risk of loss attributed to the magnitude of the Township's investments as a single issuer. The Township's investment policy requires that the Township's investments be diversified by avoiding over-concentration in securities for a specific issuer of business sector, excluding U.S. Treasury securities and insured certificates of deposits.

NOTE 4 – TAXES:

The Township property taxes are levied each December on the assessed valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

WALES TOWNSHIP, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 4 – TAXES – (cont'd):

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property in the Township for the 2005 levy has a State Equalized Value (SEV) of \$129,066,379 and a taxable value of \$89,450,848.

The millage rate levied by the Township was .7467 for General Operating.

NOTE 5 - RECEIVABLES:

Receivables in the governmental activities are as follows:

	<u>Governmental Activities</u>
Taxes	\$ 8,833
Accounts	5,829
Due from other governmental units – State	<u>31,531</u>
	<u>\$ 46,193</u>

Governmental fund report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the components of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund -		
Fire run invoices not received within 60 days of year end	<u>\$ 3,497</u>	<u>\$ -</u>

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The composition of interfund balances as of March 31, 2005:

Due to/From Other Funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Liquor Enforcement Fund	General Fund	<u>\$ 238</u>

WALES TOWNSHIP, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 7 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the Township for the year ended March 31, 2005 was as follows:

	<u>April 1, 2004</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions/</u> <u>Adjustments</u>	<u>March 31, 2005</u> <u>Balance</u>
Capital assets, being depreciated:				
Equipment	\$ -	\$ 5,100	\$ -	\$ 5,100
Less accumulated depreciation for:				
Equipment	<u>-</u>	<u>283</u>	<u>-</u>	<u>283</u>
Total capital assets being depreciated, net	<u>\$ -</u>	<u>\$ 4,817</u>	<u>\$ -</u>	<u>\$ 4,817</u>

Depreciation expense was charged to function/program of the primary government as follows:

Governmental activities:	
General Government	<u>\$ 283</u>

NOTE 8 – RESTRICTED ASSETS:

The restricted assets of \$25,790 in the Cemetery Perpetual Care Fund are for perpetual care purposes.

NOTE 9 - RESERVED/DESIGNATED FUND BALANCE:

Reserved Fund Balance –

Fund Balance has been reserved in the various fund types to indicate that a portion of the Fund Balance is not available but reserved for a specific purpose. The following is a summary of the reserved Fund Balance at March 31, 2005:

General Fund –	
Inspection Department	\$ 12,870
Parks Millage	<u>72,029</u>
	84,899
Permanent Fund –	
Cemetery Perpetual Care	<u>25,260</u>
	<u>\$ 110,159</u>

NOTE 10 – RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, would be responsible should limit of coverages be exceeded.

WALES TOWNSHIP, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 11 – CONTINGENT LIABILITIES:

The Township has been included in a broad assessment appeal to the Michigan Tax Tribunal filed by several utility companies to challenge the state's tax multipliers for the 2002, 2003 and 2004 tax assessments. Should the tax tribunal rule in favor of the taxpayer, the Township would be required to refund the taxes, which have been assessed and collected.

NOTE 12 - RESTATEMENTS:

As of and for the year ended March 31, 2005, the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*
- No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*
- No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment of GASB No. 33*
- No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 - *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments.

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Required supplementary information, including certain budgetary schedules.

WALES TOWNSHIP, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 12 – RESTATEMENTS – (cont’d):

As a result of implementing these pronouncements for the fiscal year ended March 31, 2005, the following restatements were made to net assets at March 31, 2004:

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

Fund balances of general and special revenue	
funds as of March 31, 2004	\$ 356,923
Reclassification of Cemetery Perpetual Care	<u>20,078</u>
	377,001
 Add: prepaid expenses	 8,722
deferred revenue	<u>4,432</u>
 Net Assets at March 31, 2004	 <u><u>\$ 390,155</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

WALES TOWNSHIP
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 83,000	\$ 83,000	\$ 97,341	\$ 14,341
Licenses and permits	63,000	63,000	46,599	(16,401)
Intergovernmental -				
State	199,000	199,000	202,182	3,182
Local	-	-	10,788	10,788
Charges for services	20,700	20,700	25,276	4,576
Interest and rents	4,500	4,500	6,629	2,129
Other	12,100	12,100	15,695	3,595
	<u>382,300</u>	<u>382,300</u>	<u>404,510</u>	<u>22,210</u>
Expenditures:				
General Government -				
Legislative	6,000	6,000	5,074	926
Supervisor	16,625	16,625	16,484	141
Assessor	17,533	17,533	17,533	-
Clerk	22,909	22,909	22,712	197
Treasurer	22,409	22,409	22,397	12
Board of Review	1,545	1,545	1,442	103
Cemetery	6,000	8,500	6,820	1,680
Attorney	11,000	15,000	9,171	5,829
General Expenses	39,350	40,850	28,030	12,820
Building and Grounds	40,634	41,134	51,001	(9,867)
Elections	4,000	4,000	3,860	140
	<u>188,005</u>	<u>196,505</u>	<u>184,524</u>	<u>11,981</u>
Total General Government				
Public Safety -				
Fire Department	51,318	51,318	49,466	1,852
Zoning	2,400	2,400	993	1,407
Planning Commission	6,000	6,000	5,043	957
Inspectors	65,750	65,750	44,624	21,126
	<u>125,468</u>	<u>125,468</u>	<u>100,126</u>	<u>25,342</u>
Public Works -				
Department of Public Works	6,200	6,200	2,975	3,225
Roads	100,000	100,000	35,898	64,102
Street Lights	8,100	9,500	8,024	1,476
	<u>114,300</u>	<u>115,700</u>	<u>46,897</u>	<u>68,803</u>

Continued

WALES TOWNSHIP

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE YEAR ENDED MARCH 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Recreational and Cultural - Parks	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 3,840</u>	<u>\$(3,340)</u>
Total Expenditures	<u>428,273</u>	<u>438,173</u>	<u>335,387</u>	<u>102,786</u>
Excess of revenues over (under) expenditures	(45,973)	(55,873)	69,123	124,996
Fund Balance at beginning of year	<u>356,411</u>	<u>356,411</u>	<u>356,411</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 310,438</u></u>	<u><u>\$ 300,538</u></u>	<u><u>\$ 425,534</u></u>	<u><u>\$ 124,996</u></u>

Concluded

OTHER SUPPLEMENTARY INFORMATION

WALES TOWNSHIP
St. Clair County, Michigan

LIQUOR ENFORCEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Intergovernmental - State	\$ 1,210	\$ 1,210	\$ 1,100	\$(110)
Expenditures:				
Public Safety	1,600	1,600	1,374	226
Excess of revenues over (under) expenditures	(390)	(390)	(274)	116
Fund Balance at beginning of year	512	512	512	-
Fund Balance at end of year	\$ 122	\$ 122	\$ 238	\$ 116

FIDUCIARY FUNDS

WALES TOWNSHIP
St. Clair County, Michigan

AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED MARCH 31, 2005

TOTAL ALL AGENCY FUNDS

	Balance April 1, 2004	Additions	Deductions	Balance March 31, 2005
ASSETS				
Cash and cash equivalents	\$ 39,218	\$ 2,082,140	\$ 2,120,858	\$ 500
	<u>39,218</u>	<u>2,082,140</u>	<u>2,120,858</u>	<u>500</u>
LIABILITIES				
Due to other governmental units	\$ 38,218	\$ 2,082,140	\$ 2,120,358	-
Performance bonds payable	1,000	-	500	500
	<u>39,218</u>	<u>2,082,140</u>	<u>2,120,858</u>	<u>500</u>

CURRENT TAX FUND

	Balance April 1, 2004	Additions	Deductions	Balance March 31, 2005
ASSETS				
Cash and cash equivalents	\$ 38,218	\$ 2,082,140	\$ 2,120,358	-
	<u>38,218</u>	<u>2,082,140</u>	<u>2,120,358</u>	<u>-</u>
LIABILITIES				
Due to other governmental units	\$ 38,218	\$ 2,082,140	\$ 2,120,358	-
	<u>38,218</u>	<u>2,082,140</u>	<u>2,120,358</u>	<u>-</u>

PERFORMANCE BOND FUND

	Balance April 1, 2004	Additions	Deductions	Balance March 31, 2005
ASSETS				
Cash and cash equivalents	\$ 1,000	-	500	500
	<u>1,000</u>	<u>-</u>	<u>500</u>	<u>500</u>
LIABILITIES				
Performance bonds payable	\$ 1,000	-	500	500
	<u>1,000</u>	<u>-</u>	<u>500</u>	<u>500</u>



MANAGEMENT LETTER

To the Members of the Township Board
Wales Township
St. Clair County, Michigan

In planning and performing our audit of the basic financial statements of Wales Township for the year ended March 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

On a periodic basis, a listing should be prepared of performance bonds held by the Township.

While a detailed listing is currently maintained for all of the activity in the performance bond accounts, there is not a summary listing prepared on a periodic basis of the bonds held as of that date.

We recommend that on a periodic basis, a schedule be prepared of the performance bonds held, listing name, amount and the deposit date. The Township should then follow-up on all old performance bonds to see if they should be refunded or used to pay costs.

Fees received for the sale of cemetery lots should be collected by the Township Hall.

At the current time, fees for the sale of cemetery lots are collected by the Township's contracted sexton. To increase controls over the sale of lots, we recommend that all revenue be collected by the Township Hall.

Checks should be restrictively endorsed by the person opening the mail or receiving them over the counter.

It was noted that the person opening the mail and/or receiving checks over the counter, does not restrictively endorse checks "for deposit only", but rather they are restrictively endorsed later. We recommend that the checks be restrictively endorsed by the first person handling the checks.

The Township should reconcile wages reported per the General Ledger to wages reported on quarterly Federal Form 941's.

During the audit, it came to our attention that the quarterly 941 wages filed were not reconciled to the wages reported on the Township General Ledger, which could result in several reclassification journal entries. To ensure posting accuracy and proper reporting, a quarterly reconciliation should be performed comparing wages reported per Township general ledger to wages reported on the federal form 941 files. Any differences should be investigated, and necessary corrections made.

The Township should consider lowering its capitalization threshold and continue to research old records for any capital assets over that amount.

The Township has adopted a capitalization threshold of \$5,000, which basically mean that all items below that amount are expensed in the year of purchase. Although this is allowable, by adopting this high of a threshold, very few of the assets owned by the Township meet this requirement. Most Townships are utilizing a capitalization threshold of \$1,000 or \$2,000.

We recommend that the Township reassess the capitalization threshold and if it is decided to lower it, to go back and research records for items over the new threshold.

This report is intended solely for the information of the Township Board, management, others within the organization, the Michigan Department of Treasury and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

September 23, 2005